Audio-Tech Business Book Summaries

The Art and Discipline of Strategic Leadership

***by* Mike Freedman with Benjamin B. Tregoe**

A summary of the original text.

Strategy is one of the most used and abused words in the corporate lexicon. Rarely will you find any two executives, consultants, or academics who agree on its definition.

For the purposes of this summary, we define "strategy" as *the framework of choices that determines the nature and direction of an organization.* The choices you face include which products and services you will offer and not offer, as well as what markets you will serve and *not* serve. They also include what capabilities you will need and *not* need to take the selected products and services to the selected market.

Adding to the complexity of making these choices, strategic thinking in today's global economy is often dominated by the recent disappointments of dot-com frenzies, e-commerce, and mergers and acquisitions. And, in the time since the terrorist attacks, political and economic concerns have thrown spotlights on strategic vulnerability.

As a result, a climate of deep uncertainty and rapid change has become the norm of the new century. Some pessimists tout this uncertainty as a reason for *abandoning* strategic planning altogether. Yet, the reality is that strategy has never been *more* important.

Now, more than ever, the company that lacks a coherent strategy is vulnerable to attack. In this summary, we'll start by discussing the major tasks senior executives must undertake *before* they create a new strategy. Then, we will demonstrate a powerful five-step model for formulating and implementing that strategy. The effectiveness of this model has been demonstrated in a wide variety of public, private, and not-for-profit

In this issue:

- ***Discover...*** why a sound business strategy is more important — and more elusive — than ever before.
- ***Examine...*** the three key questions that chief executives must answer before they can begin to formulate an effective strategy.
- ***Analyze...*** the five external factors and the six internal factors that must be aligned for a company's strategy to achieve success.
- ***Improve...*** your ability to find the right members for your strategy team by looking for the nine characteristics of people who think strategically.
- ***Unleash...*** the power of a proven, five-phase model for formulating and implementing your business strategy throughout the organization.

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organizations around the globe.

While the authors describe the process in the context of a very large enterprise with many layers of management, the reality is that it can be used just as effectively by a smaller business.

Three Key Questions About Strategy

When a company is about to take on the work of creating and implementing a strategy, the chief executive must be out in front. In this portion of the summary, we'll take a look at the three key tasks chief executives should perform *before* strategy formulation can begin.

1. The first task is to understand the assumptions about internal and external factors that will drive the strategy.

2. The second task is to select the right people for formulating and implementing the strategy and decide how to lead them. This means answering questions like: "How will I lead my team?" and, "Who will be my key players, and who will serve us better from the sideline?"

3. The third task is to design the process for getting to an effective business strategy.

Let's consider each of these key tasks in more detail.

Again, the first task is to ***understand the assumptions about internal and external factors*** that will drive the strategy.

Let's start with the ***external assumptions.*** A business occupies a position in its value chain between the company's suppliers and other resources, which can be described as being "upstream" and its customers, which can be described as being "downstream."

One of the many vital reasons for formulating your company's strategy is to define its current place in the value chain, and carve out that portion of the value chain in which it will participate in the future. This definition distinguishes the organization from its competitors' role in a similar value chain.

In some radical instances, the formulation of strategy may dramatically redefine the value chain itself. For example, consider the Internet's impact on the delivery of goods and services in the business-to-consumer arena; it may eliminate a middleman distributor altogether.

One of the first things a company must do when it formulates strategy is to assess the external variables and influences that affect it. There are five basic external influences to consider.

The first external influence is *the environment.* Environmental variables include the expectations of government and regulatory bodies, the local and global communities where the organization operates, economic and technological trends, and trends in society at large.

The second external influence is the company's *relationship with its shareholders.* In the case of a subsidiary, the parent company is the shareholder. A leader must always be mindful of the mutual relationship between the company and those who contribute to its financial strength and profit from its financial gains. Often shareholders and the parent company are in harmony, but there are also plenty of times when they are not.

The third external influence comes from *customers.* A profitable relationship must exist between those who have needs and the products and services designed to meet those needs.

The fourth external influence comes from *suppliers.* These include the external sources of raw materials and components, as well as technology, people, capital, and even wholly outsourced capabilities.

The fifth external influence comes from *competitors.* Competition occurs both

upstream for suppliers and resources, and downstream for customers and markets.

Any sound strategic vision will be based on assumptions and implications about these external variables. However, ***internal factors*** are at least as important as external factors for a company that wants to formulate and implement a strategy. There are five basic internal factors that must be aligned inside a company for strategic success:

1. The company's business processes.

2. The company's goals.

3. The skills and knowledge of the workforce.

4. The company's information and knowledge management.

5. The company's culture.

The first internal factor involves a company's *business processes*. These are the processes that describe how a company's work is done, whether that work is interfacing with customers and suppliers or more internally focused.

Those processes must be aligned with the company's *goals*. These goals include the financial and non-financial measures of success derived from the strategy, both as overall business objectives and as specific measures throughout the organization, that are used to assess team and individual performance.

The third internal factor is the *skill and knowledge of the workforce,* which may be of a process, content, or technical nature.

Naturally, the knowledge of the workforce must be aligned with the firm's *information and knowledge management*. Specifically, this refers to the data that is collected and analyzed, disseminated, and applied in support of the organization's value creation.

The fifth and final internal factor is the company's *culture*. This refers to the combined effect of behaviors, values, heritage, thinking, and relationships, as well as the way these are embedded in an organization and its performance.

Each of these internal factors impacts, and is impacted by, the choices made during strategy formulation.

Now, we turn to the CEO's second strategic leadership task: ***selecting the right people for the strategy formulation team,*** which is also known as the "top team." The *top team* is a group of eight to 12 top people who are charged with the responsibility to formulate and implement the strategy.

In order to be sure that you are choosing the right people for your team, you need to answer three questions:

1. Are your prospective members working at the highest levels, with significant responsibility?

2. Will their leadership inspire a large segment of the organization?

3. Do they have the right distribution of expertise?

More specifically, people who have strategic thinking ability are likely to possess:

- Good judgment.
- Passion and courage.
- Willingness and ability to collaborate.
- Conceptual strength.
- Holistic perspective.
- Creativity.
- Expressiveness.
- Tolerance for ambiguity.
- A sense of stewardship for the future.

Characteristics of Strategic Thinking

First, *good judgment.* It's important to identify team members who are able to move beyond systematic, fact-based analysis to act on their best instincts and judgment. Strategy formulation puts a premium on visionaries who have a firm grip on reality.

Second, *passion and courage.* These qualities distinguish those who lead from those who merely manage. In formulating strategy, top team members must accept assumptions that are rapidly shifting, overcome timeframes that are impossibly brief, and prepare for the worst. You want team members who thrive on these challenges.

Third, *collaboration.* Top team members will need to balance their passion to persuade with the grace to compromise. At the end of the day, they must be willing to accept the outcome of a rational process and their collective wisdom, put politics aside, and commit to the solidarity of the team.

Fourth, *conceptual strength.* This is the ability to think incisively and systematically about abstract matters.

Fifth, *holistic perspective.* This characteristic of strategic thinkers is the ability to see the whole picture without being constrained or misled by its various parts.

Sixth, *creativity.* Creativity is the ability to think out of the box, to come up with radically new ideas, and to move beyond existing constructs.

Seventh, *expressiveness.* This is the ability to translate abstract thinking about the business into clear words and pictures that are understood by others.

Eighth, *tolerance for ambiguity.* A person who can tolerate ambiguity is able to analyze a situation effectively, even when only partial information is available.

Ninth, *a sense of stewardship for the future.* Strategic thinkers are willing to consider options that may sacrifice short-term gains when it means doing what is best for the organization in the long run.

The Definition of Strategy

Let's take a more in-depth look at the definition of strategy that we introduced earlier. As we noted, strategy is *the framework of choices that determines the nature and direction of an organization.*

The *framework* establishes the boundaries or parameters that define the scope of business activity. The criteria that determine what's "in" or "out" in an organization are derived from a variety of sources, such as the current domain, the organization's overriding beliefs and values, the competitive advantages identified, and shareholder and parent company interests.

***Choices* are made in three dimensions of the organization: the products and services that it will offer, the markets that it will serve, and the key capabilities that it must deploy in order to take its products and service to market. Of course, the criteria that guide these choices vary.**

The *nature* of an organization is what exemplifies it, describes its character, and makes its shape recognizable. For example, McDonald's is the epitome of a "fast food chain."

Of course, a strategy also has much to say about the future. *Direction* is the term we will use in this summary for the organization's future course. It encompasses the choices that will be made about future products and services, as well as future customers and markets.

Once he has a grasp of this definition, a chief *executive must turn his attention to choosing an overall strategy-setting process.*

The third preliminary task chief executives need to confront before they formulate a strategy is to ***clarify the process for getting there.***

This involves understanding the five phases of formulating and implementing strategy. Here is a brief outline of each phase; we will examine each of them in greater detail in the rest of this summary.

The first phase is ***strategic intelligence gathering and analysis.*** In this phase, executives assess the present and likely future trends in markets, competition, technology, and a host of other areas. They also examine certain internal variables like the company's values, capabilities, market results, and past strategic endeavors. Then the team

develops a set of assumptions about the future, the implications for the business, and a profile of the environment in which strategic decisions will be made.

The second phase is the actual act of ***strategy formulation.*** Based on the outputs of the first phase, the management team examines alternative futures and then selects and creates the strategic profile or vision. The quality of the formulation depends on the strength of the process through which the team makes these decisions, as well as the strategic capabilities of the team's members.

The third phase is ***master project planning.*** Invariably, there are a significant number of projects that must be completed to ensure that a strategy is implemented effectively. Using sophisticated project management methods, the top team can create a plan for how these projects will be completed. Projects that will have the most significant impact may be identified as being part of an optimal portfolio of priorities.

This leads to the fourth phase: ***strategy implementation.*** One of the most important elements of a successfully implemented strategy is the quality of project execution. Every plan also requires a major communications effort and broad employee involvement. Throughout, the progress of each project is systematically reviewed, with modifications made as necessary.

Finally, the fifth phase is ***monitoring, reviewing, and updating the strategy.*** This final phase includes the review of both internal indicators, such as progress against strategic goals and measures, as well as of external indicators, such as, for example, how the assumptions upon which the vision was created hold up in the marketplace.

Strategy is never a linear, one-time effort. At any point in the five phases, new information will enable the team to ensure the strategy's continuous renewal. Key decision points must constantly be re-visited. A strategy must never be isolated from the outside world or from internal activities vital to a company's success.

PHASE I: FROM DATA TO WISDOM

We now turn our attention to the first phase of formulating and implementing strategy: ***strategic intelligence gathering and analysis.***

Some of the thorniest issues in setting strategy revolve around data. For example, you might begin with questions such as:

- What data is needed?
- What information is relevant?
- What judgments can be made, and how can the power of these be combined to draw implications for the future of a company?

Done properly, this work is the prelude to formulating a robust strategic vision.

The key to assessing data, agreeing on assumptions, and making judgments lies in asking the right questions. Some of the questions you must pose are those that will help you and your team to look at broad areas of the external environment that are largely outside the control of the organization. Others might help the team identify the key players in the organization's value chain, and the trends that are likely to affect their behavior in the market.

To move from data to wisdom, the CEO must lead the top team decisively and shape the thinking of its members. This requires the following activities:

First, the CEO must ensure that the team gathers accurate data. This requires focusing on the answers to a few vital and strategically relevant questions:

- What are the key economic trends that could affect our strategy?

- What are the most significant trends in society for our business?
- What are the most relevant trends in government, politics, and legislation?
- What major technological trends could affect our future?
- What trends are likely to affect our customers and suppliers?
- What should we expect from our direct and indirect competitors, as well as any potential new competitors?

Second, the CEO must help the team to distill the data into a manageable quantity. He must identify common themes and issues for the team to address. The team then creates a summary that reflects the group's best insights.

Third, the team must analyze and agree on the meaning of the information presented. The members should draft a set of assumptions, or agreed-to knowledge, that will guide their thinking from this point onward.

Fourth, the team members have to make judgments. Based on their assumptions and implications, they have to use their best judgment to analyze potential problems and opportunities. They should engage in "what-if" scenarios, anticipate the future, and foresee the organization's role in it.

Fifth, the team has to evaluate its own beliefs. Before moving on to begin formulating the strategy itself, it must rigorously review the validity of its assumptions and implications. If more research is needed to validate the team's thinking, this is the time to consult academics, think-tank experts, and government models.

Gathering and analyzing data effectively at this stage is crucial. In order to optimize these activities, adopt seven ground rules:

First, *find the <u>right</u> answers through asking the <u>right</u> questions.* By sticking to the central questions, each piece of the strategic territory will eventually be covered.

Next, *continually zero in on the <u>implications</u>* of the information for your own firm.

Then, *build a framework of trust.* Avoid blindsiding the team with closely guarded data or "clever spin" that seeks to score points rather than advance the group's thinking.

Fourth, *work hard to find common ground.* Remember that areas of agreement are often powerful indicators of importance and relevance. Flexibility and compromise are always in order.

However, be sure to *remain open to challenges.* The naïve question or the unique perspective of the outsider is often crucial for validating an assumption.

Sixth *take risks, and trust your own and others' judgment.* Remember that none of you can predict the future. Together, you will do your best to anticipate it.

Finally, *trust the process.* Setting strategy deserves the discipline you would accord any other crucial business process, combined with your most inspired creativity.

<u>Phase 2: Strategy Formulation</u>

Now that we've explored gathering and analyzing strategic data, we're ready to turn our attention to the second phase: ***strategy formulation.***

More specifically, we need to examine the two initial parameters within which the strategic vision will be developed: The first parameter is the organization's strategic timeframe. The second is the organization's basic beliefs and values.

First, there's the *timeframe,* which is the most basic parameter of a strategic vision. A defined timeframe, no matter how long, focuses the development of environmental assumptions. More importantly, it is the axis for measuring organizational

and employee performance against strategic objectives.

Ask yourself about the forces that affect your own company's sense of strategic time.

- How do shifts in the world at large, such as emerging legal and regulatory constraints, affect your enterprise?
- What is the overall rate of change in your industry?
- What is the impact of relevant market trends, technological developments, shifts in demographic patterns, and emerging competitive threats?

The answers to questions like these confirm that any company's strategic timeframe is uniquely its own. Naturally, the timeframe itself is subject to review and modification as the process goes forward. Its primary purpose is to provide a parameter for strategic deliberations, and a reference point for measuring progress toward implementation.

Second, *basic beliefs* play a big role in formulating corporate strategy. Today's corporations face increasing pressure to examine and act on a set of values and beliefs.

Basic beliefs are an important aspect of strategy implementation because they set boundaries for day-to-day decision making. They also provide a sense of cohesion that reinforces strategic unity. And they support desired performance by setting a standard for accountability.

To be strategically useful, a company's basic beliefs have to fulfill six "musts":

1. They must be *universal,* and apply to everyone.
2. They must be *realistic.*
3. They must be *clearly stated* and *easily understood.*
4. They must be *measurable.*
5. They must be *demonstrable* so that everyone can see them "in action."
6. They must be *consequential,* because if a company's basic beliefs have no impact on its decision making, they are irrelevant.

Most companies settle on a relatively few basic beliefs, usually between eight and 12. They frequently address strategic, operational, and human dimensions.

Basic beliefs are not simply something that is "nice to have." Instead, they explain how an organization goes about its business. They are crucial to successful strategy implementation, aligning the organization's communications, culture, and practices with its strategic vision.

Once the company has established its basic beliefs and set its timeframe, it is ready to create a set of alternative strategic visions for consideration. This is the most important part of the strategy formulation process, and it depends on identifying the company's "driving force."

The driving force is the primary factor that decides the products and services the company will and will not offer, and the markets it will and will not serve.

Every organization has at its strategic core one of eight driving forces:

1. Products or services offered.
2. Markets served.
3. Low-cost production.
4. Operations capability.
5. Method of sale and/or distribution.
6. Technology.
7. Natural resources.
8. Return on investment or profit.

Because they vary in character, the eight driving forces lead to entirely different portfolios of products and markets and sources of competitive advantage. Let's look

at each driving force in turn.

For up to half of the companies you're likely to encounter, the driving force is *Products Offered*. A Products Offered organization meets a basic and enduring need in the marketplace by offering a limited range of products. The core products will have significant synergy in meeting a specific and basic need. For example, an automobile manufacturer addresses the need for personal transportation by making and selling cars, station wagons, sports utility vehicles, and the like.

One of the most common dilemmas an organization faces is the choice between a narrowly-focused and a more broadly-focused Products Offered alternative. In a sense, these are different strategies. However, a Products Offered firm will not include in its portfolio any products or service that have radically different end-use characteristics, or that meet completely new types of needs.

Customers and end-users of a Products Offered organization perceive its products or services as superior to, or unavailable from, its competitors. This differentiation might be based on uniqueness, price, value, packaging, quality, or a combination of these characteristics. As a result, the company will continually launch product improvements, modifications, upgrades, and extensions of its product line. It will not venture into entirely new products.

A Products Offered organization seeks to penetrate current demographic, geographic, or industrial markets as fully as possible before pursuing growth through the extension of markets or the creation of entirely new markets. For this reason, it needs to be fully attuned to its customers' buying motives.

The competitive advantage of a Products Offered firm is derived from its product differentiation, which lies in both the real benefits delivered and in end-user perceptions. The company's product differentiation must be both distinctive and superior to its competitors in order to maintain or increase market share.

The key capabilities a Products Offered organization exploits to sustain competitive advantage are most often related to product research, product development, and sales and distribution. Examples of Products Offered companies include Rolex and Toys "R" Us. Both of these companies have a narrow product range that meets an enduring, well-defined need.

A second driving force is *Markets Served*. While a Products Offered organization provides a limited range of products to an unlimited marketplace, a Markets Served organization does just the opposite. These companies build a powerful relationship with a clearly defined group of customers.

A Markets Served company pursues growth and new business through offering an ever-increasing number of products to its chosen marketplace. It will not venture from its core market. It understands its customers' buying patterns and sense of loyalty.

The competitive advantage a Markets Served enterprise enjoys is achieved through its superior relationship with its chosen market. When it succeeds, it generates fierce customer loyalty, and company and brand identification.

Such franchises are hard to come by, yet extremely compelling. For example, try convincing a teenager to change his sneakers from Nike to Reebok, or vice-versa. The key capability of a Markets Served company is the ability to focus on creating this type of loyal customer base. Such a company actively assesses customers' needs through market research, and seeks to match these ever-increasing needs with a wide range of products.

A third driving force is *Profit*. Initially, many CEOs are attracted to this force for a very obvious reason: Without solid financial performance, all other choices are meaningless. Profit is

typically the driving force behind highly diversified companies like General Electric. However, it is important to remember that the financial goals of a business are the result of its strategic vision, rather than its primary reason for existing.

A fourth driving force is *Low-Cost Production.* The type of organization that uses this as its driving force offers a limited range of products. Its superiority lies in offering a strong price/value relationship. Its focus is on the ability to produce goods more cheaply than its competitors. It derives competitive advantage from price as it passes on cost advantages to its customers. All its key capabilities are related to production processes, skills, and investment in equipment and related services. Examples of Low-Cost Production organizations include commodity companies and many firms in the steel industry.

A fifth driving force is *Technology.* A company pursuing this driving force builds its vision around a body of knowledge, or a set of capabilities that enable it to develop new technologies or enhance existing ones. Its key capabilities are research and development. Its competitive advantage lies in the development, acquisition, management of unique and superior technological expertise, and its application to the leading-edge products.

The sixth driving force is *Natural Resources.* Such an organization will own or control a portion of one or more of the world's natural resources. It may make usable products for direct sale to consumers, or sell its resources to intermediaries for use as raw materials. The competitive advantage of these companies lies in the quality, quantity, location, form, and cost of exploitation of the natural resources themselves. Companies in the oil, natural gas, and forestry product sectors often have a Natural Resources driving force.

The seventh driving force is the *Method of Distribution or Method of Sale.* These two similar driving forces act on their logistical, distribution, and sales capabilities, as well as the human and systems resources needed to exploit them fully. Typical examples include express mail deliverers and telemarketing or in-home sales organizations.

Finally, the eighth driving force is *Operations Capability.* A firm pursuing an Operations Capability driving force has a set of capabilities which, when used in a variety of combinations, produces a wide range of products or services. Such companies' competitive advantage lies in their superiority within a certain domain, be it printing, metal fabricating, or trading.

Selecting the optimum driving force is one of the most important and powerful decisions made by a top team. How can your company go about choosing its driving force? It demands an equally powerful process for making that choice.

First, create a set of objectives drawn from the organization's strategic intelligence. Second, rank these by their degree of relative importance since they will not all be of equal weight. Next, develop a number of alternative future strategic visions, based on perhaps three or four alternative driving forces. Then evaluate each alternative rigorously against the criteria to discover the best choice.

Using this process to select a driving force answers two seminal questions that face every organization:

- What is the company's competitive advantage?
- Which key capabilities will be required to capitalize on it?

These components will help make the company's strategic vision a reality, as it is translated into action through carefully aligned implementation.

Phase 3: Master Project Planning

We now turn our attention to the third phase of

formulating and implementing strategy: ***master project planning.*** The challenge of implementing strategy can be overwhelming. However, the strategic master project plan is one tool that can be of immense help in overcoming this daunting challenge.

Strategic master project planning includes the elements common to all project management methods:

- A clear statement of the project's purpose and specific goals and objectives to be met.
- Expectations about project on-time delivery.
- Scheduling.
- Resourcing.
- Cost performance assessment.
- Correct sequencing of projects.
- Quality and performance standards.

However, it is also wider in scope and more ambitious than day-to-day project management.

The purpose of the strategic master project plan is four-fold:

1. To assess the strategic initiatives that must be launched.
2. To integrate into the plan the existing operational projects that continue to be relevant.
3. To identify the projects that must be accomplished first.
4. To create a system for review and integration of additional projects that keep their implementation in line with the strategic vision.

The strategic projects come from four areas:

The first area involves *critical issues that pose a significant threat to the strategy's success.* The projects that address critical issues will be of the highest strategic priority. For example, one electronics firm faced a severe shortage of engineers because larger and wealthier competitors were luring the top talent to better-equipped research facilities at higher salaries. Its first two strategic projects were designed to address this critical issue: The firm upgraded its research facilities, and it designed a more attractive compensation system that allowed it to recruit and retain the engineers it needed to implement its strategy.

The second area is *the strategic vision,* or what the company will be like if the strategy is successful. The team must carefully review each of the profile's components to identify the gap between the company's current state and its ideal state at the end of the timeframe. Some of the components that might be compared include the company's current versus ideal source of competitive advantage, as well as its key capabilities, basic beliefs, and strategic intelligence gaps.

The third area that's likely to yield strategic projects is *existing key operational projects that impact the strategy.* It's inevitable that projects will already be underway in your organization, such as the upgrading of telephone systems or moving headquarters to a new location. Although these may have little to do with the strategy, they will compete for resources and management attention. As a result, they may affect the company's ability to implement strategy. Some will be integrated into the plan, while others will be discontinued.

The fourth and final area likely to yield strategic projects are *the internal and external influences* that we discussed earlier in this summary. Again, external influences include relationships with shareholders, customers, and suppliers, as well as the actions of competitors. Internal influences include the company's goals; the skills and knowledge of the workforce; the company's information and knowledge management; and the company's culture.

Drawing on these four areas, the team gathers a potential pool of projects for

the strategic master project plan. They will range widely in urgency, in importance, and in potential strategic impact. The top team must prioritize them based on the impact and urgency of their results, as well as the resources that will be needed and the resources that are available. Ultimately, the team will rank the entire list of potential projects. The entire list of potential projects is the "optimal portfolio."

The top team then starts at the top of the list and allocates resources to the highest-priority projects, and stops when there are no resources left. However, this does not mean that a lower-priority project will never see the light of day. The team can move a lower-ranked project ahead of one that consumes more resources, or it can choose to allocate more total resources to the overall plan.

The projects that survive this exercise become the basis of the strategic master project plan.

Defining the Project Management Discipline

The first responsibility is to *choose a systematic process that defines the project management discipline.* The adoption of a project management discipline for strategy implementation must be subject to the following five criteria:

1. **A single project management methodology to be used throughout the organization. The common language for projects must be systematic, visible, and transferable to all levels, from the team to the shop floor.**
2. **Clarity in the definition of projects, as well as their planning and execution.**
3. **Robust tools and methods for project resource planning, scheduling, and monitoring.**
4. **Awareness of the human side of project management; managing projects is about managing people.**
5. **A sense of balance between people's current job requirements and their project work.**

The top team must focus on three key responsibilities to ensure that the plan will succeed. Let's look at each in turn.

First, the members of the top team remain directly involved as the ultimate reviewers of the strategic master project plan. They monitor the progress of the plan, and approve the integration of new projects into the plan.

The team is also the steward of the organization's resources, allocating both people and funds to the highest-priority projects. Finally, its members are the champions of the implementation itself, both as their ultimate sponsors and the chief communicators. The top team's activities are the focal point for the organization's assessment of strategic progress.

The top team delegates responsibility for overseeing the *execution* of the projects to the "strategy implementation team." As a first step, this team sets its own charter, including a proposal for communication and interaction with the top team and the rest of the organization, the process and methods to be used, and the resources it requires. This team also completes the optimal project portfolio analysis.

When projects are being executed, the "strategy implementation team" provides expertise and support to "project teams," and, in some cases, the required training. It reports progress on the overall plan to the top team, and prepares an initial analysis for any additional projects to be considered.

Finally, the "project teams" are formed for the execution of individual projects. Project roles are clearly identified. Every participant in the implementation, from the top team to individual project resources, must understand their responsibilities for managing, reviewing, and executing projects.

Effective systems must be created by the "strategy implementation team" for reporting progress on all major projects and significant exceptions to executive management. In the early stages, the reporting may occur at weekly intervals. Eventually, monthly reporting may suffice. The top team retains its responsibilities throughout implementation.

The optimal portfolio of projects must be reviewed regularly by the top team in order to limit project proliferation. With the same discipline applied to the initial selection, projects that are in the pipeline, as well as new projects suggested by feedback on the progress of the plan, are re-evaluated against the whole. The top team must also consciously manage employee behavior to include rewards for performance on projects and behaviors in support of the strategy.

Finally, remember that the likelihood that an entire strategic master project plan will meet its time, cost, and performance expectations without a hitch is virtually zero. When the inevitable exceptions and variations are reported, the top team must seek out and remedy the causes. When progress is habitually below expectations, they may be forced to ask: "Is this strategy realistic, or are we below par in its execution?"

The strategic master plan is the most powerful, and nimble, tool available to drive the business forward. It enables a top team to respond with the full weight of its financial and human resources to the pivotal events that determine whether the strategy will succeed.

Phase 4: Strategy Implementation

The fourth phase is ***strategy implementation.***

In this portion of the summary, we examine three crucial aspects of the strategic master project plan.

1. Organization structure.

2. Strategic information management.

3. Complexity.

We'll begin with *organization structure.* Whenever a strategy has been formulated, a company's structure should at least be examined to ensure that it promotes implementation. If it does, then it should be left alone. If it inhibits implementation, then restructuring is justified.

Default structures are often based on geography, or types of manufacturing activities. Yet, the executive team must look first to the strategic vision for guidance. If the driving force is Products Offered, for example, an organization will almost certainly consider a structure that reflects its major product categories.

Selecting a structure should be considered with the same rigor as choosing a driving force. Most importantly, the selection criteria must be rooted in the strategic vision if the structure is to successfully support implementation.

Next, we'll examine the second of the three aspects: *creating and managing strategic information.*

To formulate strategy and draw up the strategic master project plan clearly requires relevant information. Every top team expects its organization's capacity for gathering, storing, retrieving, and synthesizing information to play a crucial role in its success. And it risks strategic failure if it does not build the development, analysis, and dissemination of strategically critical information into its implementation plan.

When information is optimized to support strategic activities, a company can gain an invaluable advantage. Given an understanding of the strategy, the information technology function can play a critical role in meeting the need for strategic information, as well as the *day-to-day* information normally required for operational, financial, and planning purposes. The

information glut shows no sign of abating. Winning organizations will harness their people, time, and IT capabilities to ensure the strategic dimension of information comes first.

The third and final aspect is reducing *complexity,* particularly with respect to the relationship between products, customers, and profitability. Many companies make too many products in too many markets — and this effort to be "all things to all people" can become a huge obstacle to implementing a new strategy.

For example, one stationery supplier offered tens of thousands of items, including pencils in all sizes, colors, and shapes. The firm routinely accepted orders for its most obscure items in miniscule quantities. Inevitably, the typical customer placed these offbeat orders no more than twice a year, while placing the bulk of his orders with another supplier. The firm lost money on every order of this type, but it continued the practice for years. This level of complexity made its new strategic projects impossible, and the firm ultimately had to abandon the practice to avoid going out of business.

This example illustrates the "Rule of 50/5." Like the well-known Pareto Rule of 80/20, the Rule of 50/5 describes the high cost of complexity. The top 5 percent of the number of products sold in a given company typically account for at least 50 percent of the revenues. Similarly, the top 5 percent of a company's customers typically account for at least 50 percent of its revenue.

To look at this rule another way, the *bottom* 50 percent of many firms' customers account for only 5 percent of revenues.

Serving these customers is lethal to a business strategy. Therefore, the top team must look for ways to reduce complexity by eliminating unprofitable products, discontinuing service of unprofitable customers, and outsourcing any activities that could be done more efficiently by a supplier. In most cases, reducing complexity will free up even more resources for the high-priority projects that are crucial to the strategy.

Finally, to achieve success in strategy implementation, every organization must also build a systematic approach to *communicate* its strategy throughout the ranks. Failure to do so is a death sentence for strategy implementation.

The strongest support for implementation will be gained when everyone is given opportunity to understand, question, and embrace the strategic vision.

Let’s look at the nine keys to the vital task of communicating strategy:

1. Realize that the top team carries the brunt of the responsibility. The involvement of the CEO and/or members of the original top team is a powerful message in and of itself, and they should be part of as many communication channels as possible.

2. Stick together. No matter what the ups and downs of the strategy process may have been, the top team must present an absolutely unified front. The slightest chink in the armor or rumbling in the corridor invalidates the entire communication effort.

3. Rely on face-to-face communication. On a topic as crucial as strategy, doubt and controversy are givens. When communication takes place on a personal level, any potentially misleading messages can be clarified on the spot.

4. Involve the supervisor or manager closest to the targeted individuals or groups. To answer critical questions about how specific actions and behaviors will change, the person who will be responsible for monitoring those changes must be on hand, alongside the CEO or top team member.

5. Know when to listen. Every communication

effort provides an opportunity for dialogue. The potential lessons to be learned are too valuable to overlook.

6. Skip the dazzle and focus on the message. The purpose of communicating strategy can get lost in the attempt to package the message appealingly.

7. Engage your audience. There's an art to motivating people, and communication must be persuasive if it is to influence each individual to change his or her behavior.

8. Connect every message with an action to be taken, or a plan to be implemented. If your constituents are expected to make changes, they need to understand how. Words are not enough. The "next steps" that people have to take must be made clear.

9. Remember that no communication is successful unless it answers the key question on the mind of everyone who receives it: *"What does this mean for me?"* When you're asking individuals and groups to change their behavior and align their efforts with the strategic vision, they'd better understand what you want them to do, and why.

Phase 5: Monitoring, Reviewing, and Updating the Strategy

Once the company's strategy has been implemented, there is still more work to do to ensure that it succeeds. It's crucial to ***monitor the health of a strategy at all times.*** This is the fifth and final phase of formulating and implementing strategy. Thus, we conclude this summary with four major questions that are vitally important to ask when it comes to monitoring strategy.

The first major question is: *How well are we implementing the projects in our strategic master project plan?*

To answer this question fully, the progress of every project, sub-project, and individual task must be subjected to four additional questions.

1. Is the project meeting its objectives, at the required level of quality?

2. How does our progress measure up against the expected timelines established?

3. Are we staying within the expected budget of human and financial resources?

4. Has anything changed to cause us to revisit the priority of projects?

The top team's involvement in reviewing project progress will vary with the nature of the organization and the complexity of the plan. Some companies may review only those projects where the deviations are very significant, or where a project failure could derail the strategy. Others may focus on a limited set of criteria, or conduct a regular monthly overview.

In any case, the top team's commitment must be clear, including its own adherence to the project management discipline and the process for assessing the priority of potential new projects.

The second major question is: *Is strategy driving the decisions made in our organization?*

One could argue that it is the sum of every decision made that determines whether strategy implementation has been successful. The top team plays a vital role in both modeling and monitoring the strategic alignment of decisions. It must be on the lookout for managerial "lone rangers" who operate as though immune from strategic imperatives, posing real threats to both implementation and strategic success.

The third major question is: *Are the environmental assumptions we made during strategy formulation still valid?*

The assumptions made about internal and external

environments during the initial phase of strategic intelligence gathering are the bedrock on which every other component of the strategy rests. If an environmental tremor shakes those assumptions, the strategy may well be in trouble.

The fourth and final question is: *Is our strategy viable? Is it driving our success in the marketplace?*

Viability is both the purpose of strategy and its ultimate reality test. The top team must habitually re-visit tough questions about whether or not it has selected the best possible driving force, whether its relative emphasis on certain products and markets has produced the expected results, and whether the company's source of competitive advantage has proven to be a significant one.

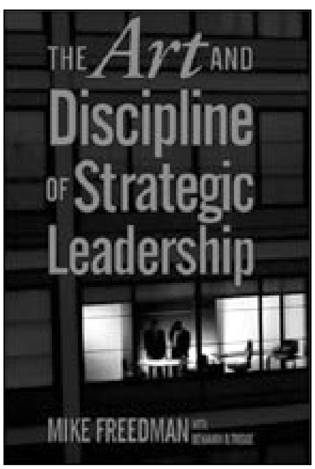
As the world continues to become more competitive and complex, continually asking — and answering — these questions is more vital to your company's success than ever before.

NOTES

ABOUT THE AUTHORS

Mike Freedman is the president of the Worldwide Strategy Practice of Kepner-Tregoe, Inc., the global consulting and training company. He has led many consulting assignments designed to facilitate clients in the formulation and implementation of their strategies. His clients have included the American Manufacturing Corporation, the Bank of Ireland, Bristol and West Bank, Corning, Courtaulds, Chase Manhattan Bank NV, Hallmark, the Industrial Development Agency of Ireland, ICI Paints, Kennametal, Inc., Lagoven (The State Oil Company of Venezuela), Massey Ferguson, Royal Mail, Savoy Group of Hotels, and many others.

Benjamin B. Tregoe is the cofounder of Kepner-Tregoe, Inc., and the author of numerous books, including the bestselling management classic *The Rational Manager.*



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